

State of Iowa

FY 2009 - FY 2010 Budget Overview

Senate Appropriations Committee
January 14, 2009

Fiscal Services Division

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Basic Budget Components



– General Fund

- 82% from Income and Sales taxes
- Total Net Receipts for FY 2010: \$6.026 billion

– Rebuild Iowa Infrastructure Fund (RIIF)

- 79% from State Wagering Taxes and Fees
- 12% from Interest on Reserve Funds and RIIF
- Total Est. Receipts for FY 2010: \$255.9 million

Basic Budget Components



– Senior Living Trust Fund

- FY 2009 Total Revenues: \$151.0 million
- \$48.3 million from FY 2008 General Fund Surplus
- \$20.4 million from Economic Emergency Fund excess
- FY 2009 Appropriations: \$122.3 million
- FY 2009 Ending Balance: \$28.7 million
- Projected repayment at end of FY 2009: \$251.8 million

– Technology Reinvestment Fund

- \$17.5 million appropriation from RIIF/General Fund

Basic Budget Components



– Tobacco Funds

- Securitized tobacco settlement payments have generated bonds proceeds for the State. The proceeds have been used largely for health care and infrastructure-related projects.
- Payments were securitized in 2001 and 2005
- Total Taxable Bond Proceeds: \$89.7 million
- Total Tax Exempt Bond Proceeds: \$640.5 million
- G.A. authorized \$183.0 million securitized for FY 2009. Securitization has not moved forward due to market conditions.

Basic Budget Components

– Health Care Trust Fund

- \$127.6 million from General Fund
- Helps Funds Medicaid (\$114.9M) and MHI's (\$7.6M) and Public Health programs (\$7.8M)
- \$20.4 million from Economic Emergency Fund excess

– Environment First Fund

- \$42.0 million appropriation from RIIF

– Prison Bond Fund

- Treasurer to issue initial bonds in Spring 2009
- Total proceeds: \$131.0 million

Basic Budget Components

– Road Use Tax Fund (RUTF)

- FY 2009 Total Revenues: \$1.150 billion
- 57% from Registration Fees (\$659.8M)
- 38% from Fuel Taxes (\$433.4M)
- 5% Other (\$57.2M)

– Time-21 Fund

- FY 2009 Total Revenues: \$15.2 million
- \$4.9 million Trailer Registration Fees
- \$10.3 million Title Fees
- Estimated to grow to \$131.5 million by FY 2013



Comparison of All Appropriated State Funds

(Dollars in Millions)

<u>Funding Sources</u>	<u>Actual FY 2007</u>	<u>Actual FY 2008</u>	<u>Est. FY 2009</u>	<u>FY 2009 vs. FY 2008</u>	<u>Percent Change</u>
GENERAL FUND					
Total General Fund Appropriations	\$ 5,392.9	\$ 5,898.4	\$ 6,060.8	\$ 162.4	2.8%
<i>GF Appropriations to Other Funds</i>	<i>-74.3</i>	<i>-243.6</i>	<i>-178.6</i>	<i>65.0</i>	
Net General Fund Appropriations	<u>\$ 5,318.6</u>	<u>\$ 5,654.8</u>	<u>\$ 5,882.2</u>	<u>\$ 227.4</u>	<u>4.0%</u>
APPROPRIATIONS FROM NON-GENERAL FUND STATE SOURCES					
Primary Road Fund	\$ 269.1	\$ 291.6	\$ 288.7	\$ - 2.9	-1.0%
FY 2009 Restricted Capital Fund (RC3)	0.0	0.0	182.8	182.8	
Property Tax Credit Fund	159.9	159.9	159.9	0.0	0.0%
Net RIIF Appropriations	89.3	172.0	143.1	-28.9	-16.8%
Temp. Assist. for Needy Families (TANF)	139.1	143.6	142.7	-0.9	-0.6%
Prison Bond Fund	0.0	0.0	130.7	130.7	
Health Care Trust Fund	0.0	127.6	129.7	2.1	1.6%
Senior Living Trust Fund	74.8	75.3	122.3	47.0	62.4%
Iowa Care Account	103.2	118.8	112.3	-6.5	-5.5%
Other	476.8	378.1	310.9	-67.2	-17.8%
Total Non-General Fund	<u>1,312.2</u>	<u>1,466.9</u>	<u>1,723.1</u>	<u>256.2</u>	<u>17.5%</u>
SUBTOTAL OF ALL STATE FUNDS	<u>\$ 6,630.8</u>	<u>\$ 7,121.7</u>	<u>\$ 7,605.3</u>	<u>\$ 483.6</u>	<u>6.8%</u>

* Appropriations between funding sources are adjusted to avoid double counting.

General Fund FY 2009

What happened since we adjourned last Session?

- When the General Assembly adjourned the estimated ending balance for FY 2009 was \$82.6 million.
- The REC met in October and December and lowered the FY 2009 revenue estimate by \$151.1 million compared to the April 2008 estimate.
- State incurred disaster-related expenses due to the devastating storms last spring and summer. Current estimate for FY 2009: \$22.5 million.
- Good news, a small decrease to the school aid appropriation of \$2.0 million.
- This leaves a budget shortfall of \$87.0 million for FY 2009.
- This does not include a \$47.0 million need for a Medicaid supplemental.

General Fund

(Dollars in Millions)

Total Funds Available

Actual FY 2008	FY 2009	
	Legislative Action	12/12/2008 Estimated
\$ 6,084.4	\$ 6,203.1	\$ 6,052.0

Expenditure Limitation

6,140.5

Estimated Appropriations and Expenditures:

Appropriations	5,898.4	6,133.0	6,133.0
Standing Appropriation Adjustments			18.5
Total Appropriations	5,898.4	6,133.0	6,151.5
Adjustment to meet Expenditure Limitation (Spending Gap)			- 87.0

Reversions

- 10.4	- 12.5	- 12.5
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Net Appropriations

5,888.0	6,120.5	6,052.0
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Ending Balance - Surplus

\$ 196.4	\$ 82.6	\$ 0.0
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Appropriations/Transfers to Other Funds

Property Tax Credit Fund	\$ 99.8	\$ 0.0	\$ 0.0
Senior Living Trust Fund	48.3	36.8	0.0
Cash Reserve Fund	48.3	45.8	0.0

Total

\$ 196.4	\$ 82.6	\$ 0.0
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Governor's Response to FY 2009

- \$40.0 million in proposed selective cuts to State agencies (details forthcoming).
- Proposed elimination of \$37.0 million funding for new State Office Building.
- 1.5% Across-the-Board cut totaling \$90.6 million.
- Total Reductions: \$167.7 million.

General Fund

(Dollars in Millions)

Funds Available:

December 2008 REC Estimate
Office Bldg. Revenue Transfer (RIIF?)

Total Funds Available

Estimated Appropriations and Expenditures:

Appropriations
Adjustments to Standings
Governor's 1.5% ATB Reduction
Governor's Selective Reductions
Estimated Medicaid Supplemental
Subtotal



Adjustment to meet Expenditure Limitation (*Spending Gap*)

Total Appropriations less Adjustments

Reversions

Net Appropriations

Ending Balance - Surplus

	 Current LSA Estimated FY 2009	 With Gov. Adjustments Estimated FY 2009
	\$ 6,052.0	\$ 6,052.0
		37.0
	6,052.0	6,089.0
	6,133.0	6,133.0
	18.5	18.5
		- 90.7
		- 40.0
		47.0
	6,151.5	6,067.8
	- 87.0	
	6,064.5	6,067.8
	- 12.5	- 12.5
	6,052.0	6,055.3
	\$ 0.0	\$ 33.7

General Fund FY 2010 Outlook

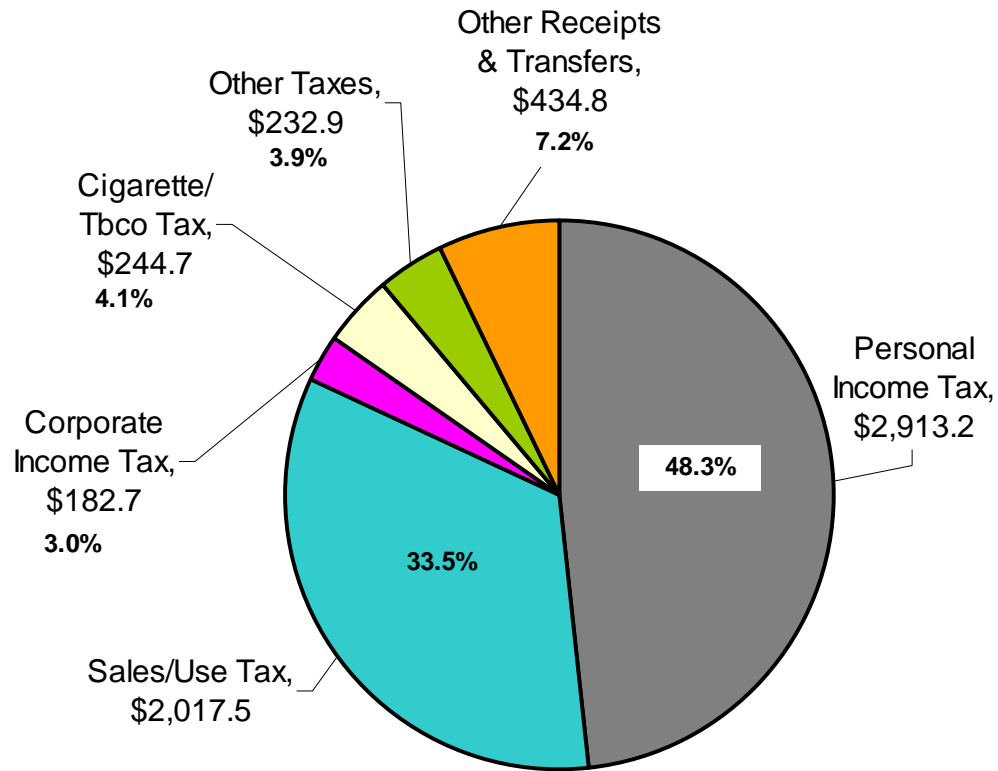
FY 2010 Budget Outlook

- Iowa is facing a budget gap of \$779.0 million. A gap is not a deficit.
- FY 2010 General Fund revenues are estimated to decrease \$26.2 million below FY 2009 and \$58.6 million below FY 2008 revenues.
- Built-in and Anticipated expenditures are estimated to increase \$611.5 million over the FY 2009 enacted appropriations.
- Other states are in similar or worse shape. Recent survey by NCSL shows 45 states are pessimistic or concerned about the remainder of FY 2009. 26 states are predicting FY 2010 budget gaps.
- Faltering revenues as the economy has contracted. Compounded by growing expenses for health care, especially Medicaid.
- Good news is that our “rainy day” funds are full at \$620.3 million.

Where does the money come from?

General Fund Receipts FY 2010 Estimated

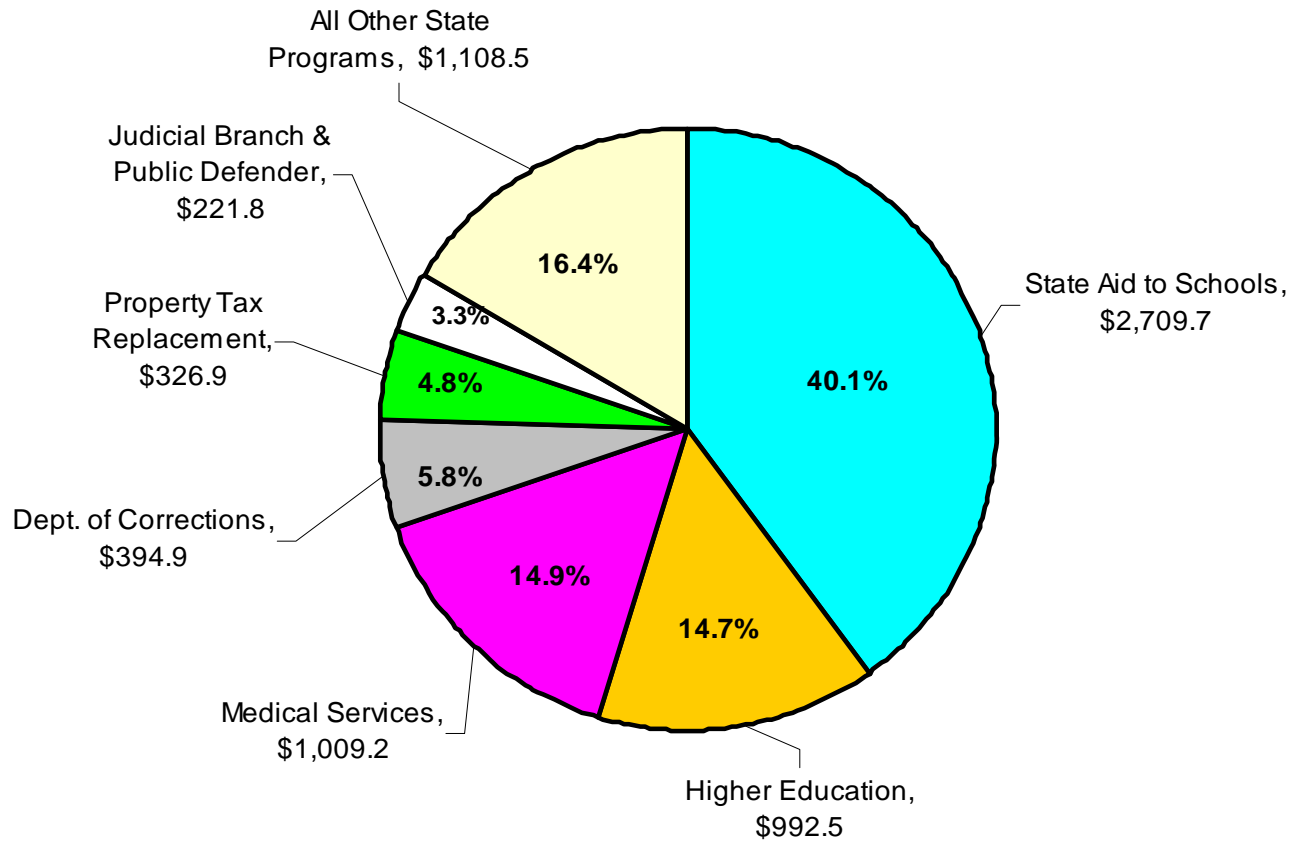
(dollars in millions)



Where does the money go?

General Fund Projected Expenditures FY 2010

(dollars in millions)



FY 2010 Total = \$6,744.5

Assumes all built-ins funded

Expenditure Limitation

- Iowa law imposes an expenditure limitation of 99% on the Adjusted Revenue Estimate.
- Any new revenues enacted by the General Assembly have an expenditure limitation of 95%.
- FY 2010 Expenditure Limit: \$5.966B ($\6.026×0.99)
- Expenditure limitation guarantees a surplus that is used to fund the State's Rainy Day Funds and the Senior Living Trust Fund.
- The Rainy Day Funds include the Cash Reserve Fund and the Economic Emergency Fund.



General Fund

(Dollars in Millions)



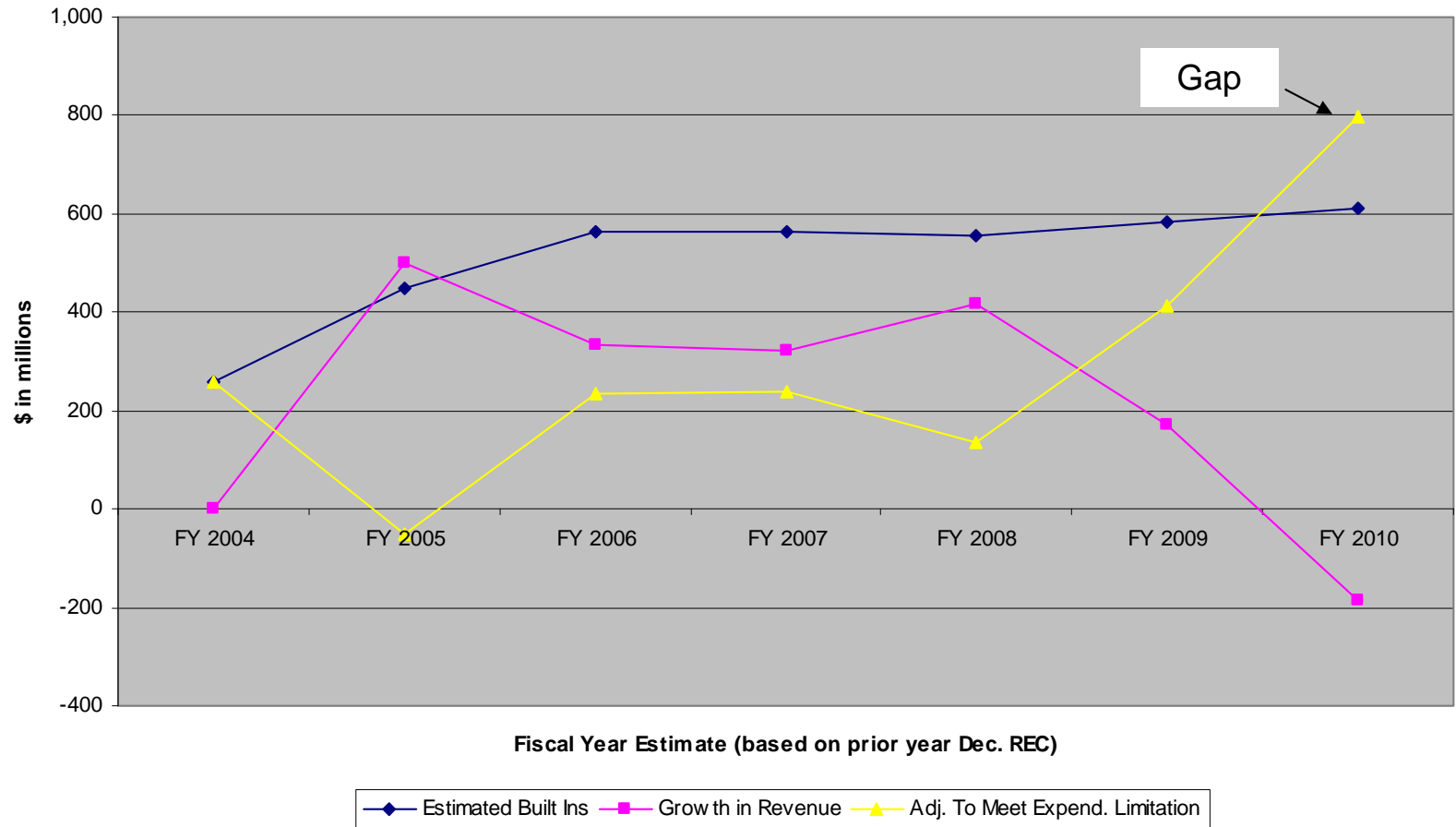
	Actual FY 2008	Estimated FY 2009	Estimated FY 2010
Total Funds Available	\$ 6,084.4	\$ 6,052.0	\$ 6,025.8
Expenditure Limitation			5,965.5
Appropriations and Expenditures:			
Appropriations	5,898.4	6,133.0	6,133.0
Built-in and Anticipated Expenditures			611.5
Standing Appropriation Adjustments		18.5	
Total Appropriations	5,898.4	6,151.5	6,744.5
Adjustment to meet Expenditure Limitation (Spending Gap)		- 87.0	- 779.0
Reversions	- 10.4	- 12.5	- 12.5
Net Appropriations	5,888.0	6,052.0	5,953.0
Ending Balance - Surplus	\$ 196.4	\$ 0.0	\$ 72.8
Appropriations/Transfers to Other Funds			
Property Tax Credit Fund	\$ 99.8	\$ 0.0	\$ 0.0
Senior Living Trust Fund	48.3	0.0	36.4
Cash Reserve Fund	48.3	0.0	36.4
Total	\$ 196.4	\$ 0.0	\$ 72.8



General Fund

Projected Expenditure Increases vs. Estimated Revenue Growth

(based on prior year December Revenue Estimate)



Growth Rate Necessary

- Each 1.0% revenue growth represents about \$55 to 60 million dollars in revenue impact.
 - 1% - \$60 million
 - 2% - \$120 million
 - 3% - \$180 million
 - 4% - \$240 million
 - 5% - \$300 million
- To meet the “Built-in expenditures” and anticipated increases of \$600.0 million, revenue will have to grow at a rate of 10%.
- Historical growth rates
 - FY 2006 – 3.6%
 - FY 2007 – 6.4% (cig tax effective in March)
 - FY 2008 – 7.9% (cig tax – full year)
 - FY 2009 – (-0.5%) (December REC Estimate)

Reserve Funds



Cash Reserve Fund

- Capped at 7.5% of the Adjusted Revenue Estimate that was used to balance the budget.
- Current Fund Balance: \$465.2 million
- Can be used for General Fund cash flow purposes
- Appropriations from the Fund are allowed if:
 - The moneys are used for non-recurring emergency expenditure.
 - The appropriation is approved by a simple majority if the Fund is not reduced to below 3% of the Gen. Fund adjusted revenue estimate. 60% approval is needed if the fund is reduced below 3.75%.

Economic Emergency Fund



- Capped at 2.5% of the Adjusted Revenue Estimate that was used to balance the budget.
- Current Fund Balance: \$155.1 million.
- Receives excess funds from the Cash Reserve Fund.
- Can be used for General Fund cash flow purposes.
- Excess from the Fund is transferred to the Senior Living Trust Fund until the \$300.0 million limit is reached.
- Appropriations from the EEF are allowed for an emergency expenditure in the current Fiscal Year.
- Recent law change permits an appropriation from the Fund to reduce a negative ending balance in the General Fund. Limited to \$50.0 million. Certain contingencies must be met.

Reserve Funds

Cash Reserve + Economic Emergency Fund

10% Reserve Requirement = \$620.3 mil.

Estimated FY 2009 Balances = \$620.3 mil.



Built-in and Anticipated Expenditures for FY 2010

Built-in and Anticipated Expenditures

- Built-ins - A built-in expenditure is a projected change compared to the previous year's enacted appropriation that is associated with a standing appropriation established by statute, an entitlement program, or a multi-year appropriation. Legislative action is required to change or notwithstanding the standing appropriation provisions of the Code of Iowa.
- An anticipated expenditure is a projected increase associated with a cost that a State agency or program will incur in the next budget year, but has not been appropriated the funds to cover the increased cost. Legislative action is required in order for State agencies to receive additional funds for the anticipated costs. If a State agency is not appropriated the additional funds, the agency must find reductions in their budget to fund the anticipated expenditure obligations.
- Built-in and anticipated expenditures can be increases or decreases depending on how the incremental change affects the baseline appropriation levels.

Built-ins

Built-in Changes

1. Education - K-12 School Foundation Aid	\$ 421.9
2. Education - Teacher Quality/Student Achievement Program	-238.5
3. Education - Educational Excellence Phase II	-41.2
4. Education - Early Intervention/Class Size Reduction	-29.3
5. Education - Early Care, Health, and Education	-10.0
6. Education - Parent Support and Parent Education	-5.0
7. Education - Instructional Support	0.4
8. Human Services - Medical Assistance	164.0
9. Human Services - Health Care Reform	10.0
10. Human Services - State Children's Health Insurance - hawk-i	9.0
11. Human Services - Mental Health Growth Factor	8.3
12. Revenue - Homestead Tax Credit	71.7
13. Revenue - Agricultural Land Tax Credit	25.0
14. Revenue - Elderly and Disabled Credit	16.8
15. Revenue - Military Service Tax Credit	2.0
16. College Aid - College Student Aid Work Study Program	1.8
17. Executive Council - Performance of Duty	35.5
18. Management - State Appeal Board Claims	7.9
19. Public Health - Substance Abuse	2.0
20. Veterans - County Grant Standing	1.0
Subtotal	\$ 453.3



Anticipated Expenditures

Anticipated Expenditure Changes

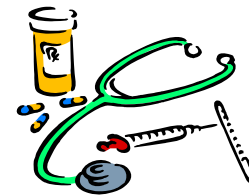
21. Collective Bargaining Salary Costs	\$ 92.9
22. Healthy Iowans Tobacco Trust (HITT) Programs	36.4
23. Health Care Trust Fund (HCTF) Programs	0.5
24. Corrections - Anticipated operating cost increases	4.1
25. Corrections - Operating Costs for Additional Beds	2.7
26. Corrections - Sex Offender Supervision & Treatment	2.5
27. Corrections - Federal Funds Replacement	0.5
28. Corrections - DAS Reimbursement	0.4
29. Dept. of Justice - Victim Assistance Grants	4.1
30. Education - Teacher Quality/Student Achievement Program	-0.8
31. Human Services - Child and Family Services	3.6
32. Human Services - Mental Health Emergency	3.0
33. Human Services - IowaCare Growth at U of I	2.0
34. Human Services - Field Operations	1.2
35. Human Services - Mental Health Child System	1.0
36. Human Services - Mental Health Risk Pool	1.0
37. Human Services - Health Insurance for Direct Care Workers	0.8
38. Human Services - Sexual Predator Commitment Program	0.7
39. Human Services - General Admin	0.1
40. Human Services - State Resource Centers	-3.7
41. Judicial Branch - Retirement Fund Contribution	4.8
42. Public Health - Chronic Conditions	0.1
43. Public Health - Substance Abuse	1.3
44. Veterans Home	-1.0
Subtotal	\$ 158.2
TOTAL PROJECTED EXPENDITURE CHANGES	\$ 611.5





Just a few of the Budget Issues for 2009 Session

- **Property Tax Credits** – Part of the FY 2009 property tax credits (\$99.8 million) were funded from FY 2008 surplus and \$13.9 million from left-over FY 2008 salary adjustments funds. Funding will need to be “found” for FY 2010 if property tax credits are to be funded at the FY 2009 level.
- **Medicaid** – The single fastest growing area of the state budget continues to put pressure on other areas of the budget. Its estimated an additional \$164.0 million will be needed in FY 2010 to fully fund Medicaid.



Just a few of the Budget Issues for 2009 Session

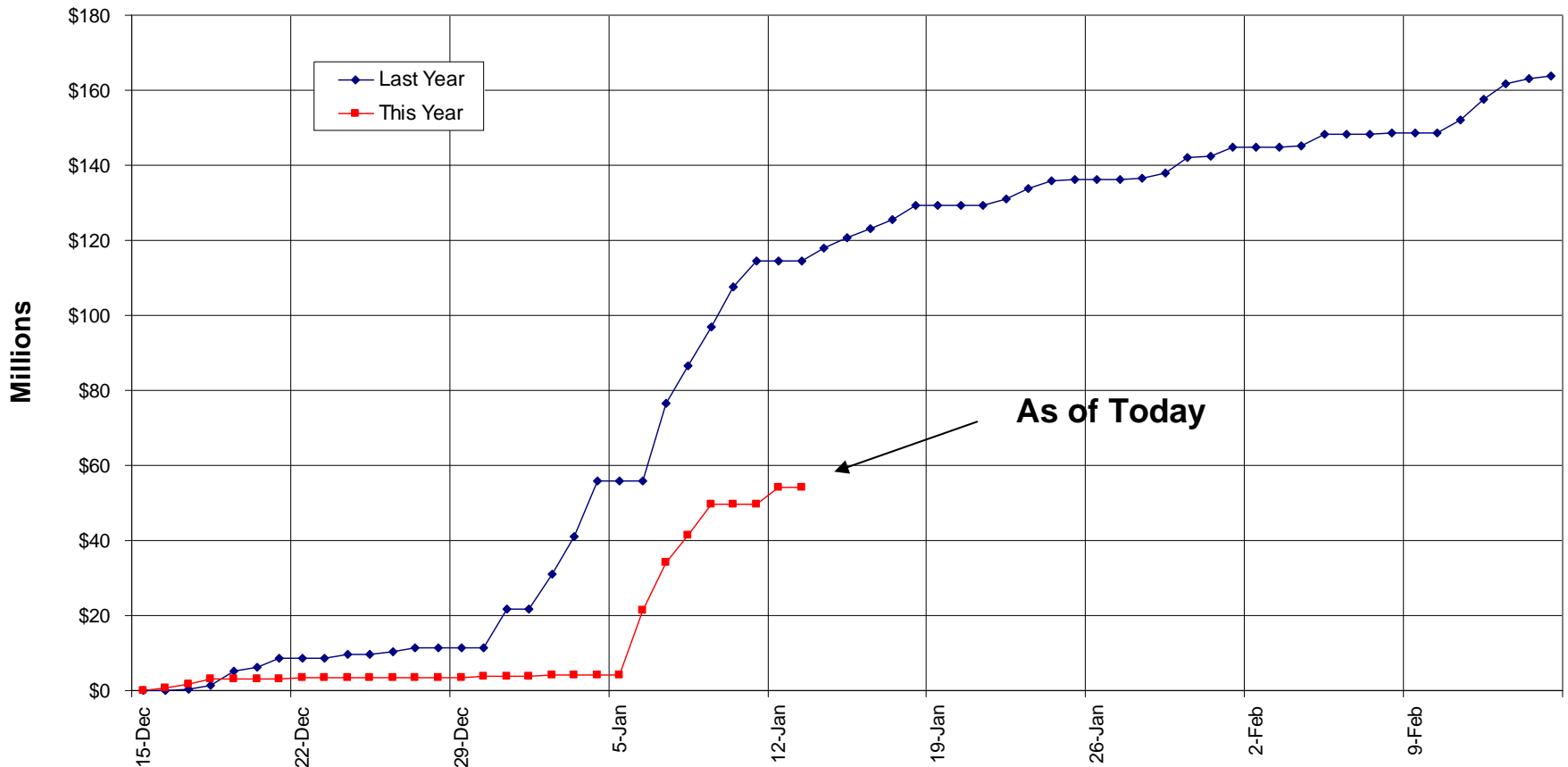
- **School Aid** – State aid to schools makes up 40% of the FY 2009 budget. Allowable growth of 4% was set for FY 2010 by the 2008 General Assembly, which will cost an estimated \$112.9 million (part of the “built-ins”).
- **Collective Bargaining** – State employee collective bargaining units will be negotiating a new contract this year. The settlement will impact spending for other General Fund programs. A 1.0% increase costs approximately \$17.4 million not including annualization of merit steps.
- Difficult decisions, if revenue growth is not there or even estimated to be negative, and most other sources of funds have “dried up”, what services can be eliminated or reduced?

So, where are we in the process?

- Have a revenue estimate (REC met December 12)
 - FY 2009 = -0.5%
 - FY 2010 = -0.4%
 - OR \$21.5 million less than FY 2009 estimated
- Have an estimate of “built-in” increases, but this may still change.
- Departments have submitted budgets. FY 2010 Department requests are \$353.6 million more than Est. FY 2009.
- Waiting on the Governor’s budget recommendations – must be submitted by Feb. 1.

Personal Income Tax Estimate Payments

December 15 to February 15



Fiscal Topics Recently Published

- Workforce Development Training Programs
- Statewide System for Vision Services
- Rebuild Iowa Infrastructure Fund
- State Recreational Trails
- Revitalize Iowa's Sound Economy (RISE) Program
- Iowa Veterans Home
- School Finance: Budget Guarantee Phase-out
- School Finance Formula - State Categorical Roll-In
- Medicaid
- Postsecondary Registration: Limiting Diploma Mills
- Groundwater Protection Fund
- Resource Enhancement and Protection Fund
- Community Action Agencies
- Iowa's Victim Information and Notification Everyday System
- Crime Victim Assistance Division
- General Overview of Criminal Fine Revenue and Surcharge Distribution
- Performance of Duty Appropriations

Fiscal Topics Recently Published

- Judicial Retirement System
- National Board Certification of Iowa Teachers
- Student Achievement and Teacher Quality Program
- Board of Educational Examiners
- State Appeal Board Appropriations
- Peace Officers' Retirement, Accident, and Disability System (PORS)
- Municipal Fire and Police Retirement System (411)
- Methamphetamine
- Iowa Public Employees' Retirement System (IPERS)

Soon to be published:

- **School Finance Formula – Property Tax Relief**
- **Balancing the FY 2009 General Fund Budget**
- **State Children's Health Insurance Program (SCHIP)**
- **TIME-21**
- **Iowa's Gross State Product**

Web Sites

- The General Assembly's web site:

<http://www.legis.state.ia.us/>

- The Fiscal Services Division web site:

<http://staffweb.legis.state.ia.us/lfb/>

IOWA STATE CAPITOL—GROUND FLOOR

